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Praying for High Oil Prices

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By [Aleh Tsyvinski](#)

While spending three days at the 13th annual St. Petersburg International Economic Forum, I was constantly thinking to myself, "What is the main message of the forum and what can I take away from it?" The topics of the sessions were vague, and they duplicated what almost every other large global conference discusses: the crisis, globalization and a new financial architecture.

But after the forum was completed, I realized that the main point of the conference boiled down to one session only -- the one titled "What is the Price of Oil?" During this session, participants were asked to answer the question using individual electronic controls. The answer that most people chose was a range of \$70 to \$80 per barrel. When people ask me what I learned the most from the forum, I have my own one-liner: "70 to 80."

While the belle epoque of the eight-year oil boom is over, the economy will chug along thanks to reasonably high oil prices. I could not stop asking myself whether Russia was on the verge of the new decade of

Brezhnev-style stagnation. Another parallel that came to mind was the "lost decade" of the 1990s in Japan, when the acute phase of the crisis was mostly over but the economy grew only at 0.5 percent per year compared to, for example, U.S. growth of 2.5 percent for the same period.

During the prosperous years of high oil prices, I had at least some hope that a part of the largesse would have been spent on infrastructure or education, which could contribute to long-term economic growth. During the near collapse of the economy in the fall, I thought that finally the government would realize the need for pushing ahead with radical economic reforms that would eventually lead to a modern, robust economy. Now, my mood is that "70 to 80" will conserve the status quo, save a second wave of the crisis.

Not surprisingly, the most anticipated speech at the St. Petersburg forum was from President Dmitry Medvedev. First, we learned that the anti-crisis economic decisions of the last year were successful. Second, Russia continues lobbying for reform of the international financial architecture, improving the system of global financial regulation, empowering the international financial institutions and creating reserve currencies as an alternative to the dollar. Finally and the most pleasing to my economic ear, Medvedev rebuked protectionism and supported lowering taxes as a part of the growth stimulus.

But overall, Medvedev's speech was disappointing. The opportunity to outline a clear government anti-crisis program during the relative lull in the crisis was missed. I was hoping that the president would talk not only about what the government did right in fighting the crisis, but more important, what was done wrong. To the government's credit, the collapse of the banking system was averted, there was no

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large-scale nationalization of the private companies, and the ruble was finally devalued. But the mistakes are glaring and could have been acknowledged as well.

There was also no clear strategy for handling two of the most pressing policy issues. The first is the continuing problems with the country's banks. What is the strategy of action if there will be the second wave of the banking crisis, as many experts predict? While the president acknowledged the need to clean up the balance sheets of banks as a necessary condition for the economy to recover, he didn't go beyond simply criticizing the "bad-bank approach." The big question remains: If Russia rejects the bad-bank approach, then what is the strategy?

The second issue is the social unrest, particularly in one-industry towns like Pikalyovo. Medvedev talked about social problems as being important, but again no concrete solutions were proposed. Instead of offering a concrete anti-crisis plan, I was left with the feeling that the only strategy the government is hoping for is the "70 to 80 Plan" -- praying for a sustained period of high oil prices.

The only session that required pre-registration was the one headed by Deputy Prime Minister Igor Sechin titled "What is the Price of Oil?" In contrast, the economic and finance plenary sessions led by Medvedev, Finance Minister Alexei Kudrin and others were open to public. Does this mean that Medvedev and Kudrin are less important than Sechin? It appears that the "70 to 80 Strategy" is the best Russia can offer.

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